

## Message Text

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ORIGIN AF-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 PA-01  
CIAE-00 INR-10 NSAE-00 DODE-00 PM-05 H-01 L-03  
COME-00 FRB-03 XMB-02 OPIC-03 /101 R

DRAFTED BY AF/E:PGSMITH  
APPROVED BY AF:VCJOHNSON  
EB:CMEISSNER  
E:MR COOPER (DRAFT)  
S:AAHOUGHTON  
S/S - FRANK WISNER

-----098120 182005Z /70

P R 181836Z FEB 78  
FM SECSTATE WASHDC  
TO AMEMBASSY LUSAKA PRIORITY  
INFO AMEMBASSY PARIS  
AMEMBASSY LONDON

C O N F I D E N T I A L STATE 043994

E.O. 11652: XGDS-1

TAGS: EAID, EFIN, ZA, US

SUBJECT: SECRETARY'S 2/15 MEETING WITH ZAMBIAN FOREIGN  
MINISTER -- ZAMBIA'S ECONOMIC DIFFICULTIES

1. MWALE EXPLAINED THAT THE MAIN REASON HE HAD COME  
TO SEE THE SECRETARY WAS BECAUSE OF ZAMBIA'S ECONOMIC  
DIFFICULTIES. ZAMBIA HAD HAD A DIFFICULT TIME OF  
LATE, MAINLY FOR EXTERNAL REASONS. THE IMF HAD SENT A  
TEAM TO VISIT ZAMBIA IN NOVEMBER, WHICH HAD RETURNED TO  
WASHINGTON D.C. TO AWAIT THE 1978 ZAMBIAN BUDGET  
SPEECH, TO SEE WHAT THE ZAMBIAN GOVERNMENT WAS WILLING  
TO DO TO SOLVE ITS OWN PROBLEMS. MWALE UNDERSTOOD THAT  
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THE IMF HAD BEEN PLEASED BY THE BUDGET SPEECH AND  
HAD ACCORDINGLY SENT A TEAM BACK TO ZAMBIA. IF THOSE  
TALKS SUCCEEDED, HE SAID, AT BEST ZAMBIA COULD EXPECT  
PERHAPS \$250 MILLION IN LOANS FROM THE IMF. ZAMBIA  
WOULD NEED US HELP.

2. THE SECRETARY SAID THAT THE US WOULD OF COURSE DO  
WHAT IT COULD TO HELP. WHAT WOULD REMAIN, OVER AND  
ABOVE THE IMF LOANS? MWALE REPLIED THAT THE LARGEST  
SINGLE ITEM WAS IMPORTS WHICH HAD BEEN ORDERED AND WERE

EITHER DELIVERED OR WAITING DELIVERY, BUT WHICH HAD NOT BEEN PAID FOR, TOTALING PERHAPS \$250 MILLION. OTHER-

WISE, MWALE SAID, IT WAS A MATTER OF ACCUMULATED DEBTS. ZAMBIA HAD LIVED UP TO ITS NATIONAL OBLIGATIONS EVEN IF IT MEANT FOREGOING ESSENTIAL IMPORTS.

3. THE SECRETARY ASKED WHAT A \$250 MILLION IMF FACILITY WOULD COVER. THE FOREIGN MINISTER REPLIED THAT IT WOULD COVER THE IMPORTS WHICH HE HAD MENTIONED, AS WELL AS PART OF ZAMBIA'S DEBT SERVICE REQUIREMENTS.

4. MR. COOPER SAID THAT IT WAS THE US UNDERSTANDING THAT ZAMBIA WOULD REQUIRE ABOUT \$200 MILLION FOR DEBT SERVICE IN 1978, ON TOTAL EXTERNAL DEBT OF ABOUT \$1.6 BILLION. IF THE IMPORT DEFICIT HAD REACHED \$250 MILLION; THAT WOULD GIVE \$450-500 MILLION IN EXTERNAL PAYMENTS DUE IN 1978.

5. MR. MEISSNER ASKED WHAT ZAMBIA EXPECTED IN REVENUES IN THIS PERIOD. MWALE REPLIED THAT ZAMBIA EXPECTED TO GET NOTHING FROM COPPER IN 1978. THE MINES WERE OPERATING AT A LOSS, COSTS WERE UP AND IT COST MORE FOR  
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ZAMBIA TO MINE THE COPPER THAN IT WOULD BRING ON THE WORLD MARKET. IN RESPONSE TO A QUESTION FROM MR. MEISSNER, MWALE REEMPHASIZED THAT THE FOREIGN EXCHANGE COST OF MINING ZAMBIA'S COPPER WAS JUST ABOUT EQUAL TO THE FOREIGN EXCHANGE THAT ZAMBIA REALIZED FROM ITS SALE.

6. MR. MEISSNER ASKED WHETHER THE ZAMBIAN GOVERNMENT HAD ANY CREDIT AVAILABLE TO IT FROM COMMERCIAL SOURCES. THE FOREIGN MINISTER REPLIED THAT ZAMBIA HAD VERY LITTLE AT PRESENT. HE SAID THAT THIS WAS WHY ZAMBIA NEEDED HELP TO REGAIN INTERNATIONAL CONFIDENCE IN ITS ECONOMY. FOR THE MOMENT ZAMBIA WAS JUST HANGING ON.

7. THE SECRETARY ASKED WHETHER ZAMBIA MIGHT BE ABLE TO RESCHEDULE SOME OF ITS DEBT SERVICE OBLIGATIONS. MWALE SAID THIS COULD PERHAPS BE DONE, ALTHOUGH THE GOVERNOR OF THE BANK OF ZAMBIA REALLY SHOULD BE THE ONE TO DISCUSS SUCH A QUESTION. MR. MEISSNER SAID THAT ONCE AN IMF STANDBY ARRANGEMENT HAD BEEN ESTABLISHED AND A STABILIZATION AGREEMENT MADE, HE BELIEVED THAT ZAMBIA'S CREDITORS WOULD BE WILLING TO GIVE A HEARING TO THE IDEA OF RESCHEDULING OFFICIAL DEBTS. BUT, HE EXPLAINED, NOTHING COULD BE DONE IN THIS WAY ABOUT ZAMBIAN COMMERCIAL LIABILITIES. THE US GOVERNMENT HAD NO MEANS TO INTERVENE IN THAT, BUT AS FAR AS GOVERNMENTAL OFFICIAL

OBLIGATIONS WERE CONCERNED, THE PARIS OR LONDON  
CLUB MECHANISMS COULD BE USED, ONCE A STABILIZATION

PROGRAM HAD BEEN AGREED UPON AND A STANDBY ESTABLISHED.  
THERE NEEDED TO BE A GENERAL RECOGNITION OF ZAMBIA'S  
PROBLEMS IN THE INTERNATIONAL COMMUNITY, AND RESCHEDUL-  
ING COULD THEN BE WORKED OUT AMONG THE CREDITORS. A  
LETTER FROM THE ZAMBIAN FINANCE MINISTER TO THE FRENCH  
OR BRITISH FINANCE MINISTER REQUESTING HIS GOOD OFFICES  
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IN THIS RESPECT WOULD SET THE PROCESS IN MOTION. THIS  
COULD BE DONE ONLY AT ZAMBIAN INITIATIVE, HOWEVER.

8. THE SECRETARY SAID THAT THE US WAS LOOKING AT OTHER  
WAYS IN WHICH IT MIGHT BE HELPFUL. THE US MIGHT BE  
ABLE TO FREE SOME ADDITIONAL SECURITY SUPPORTING  
ASSISTANCE FROM THE SOUTHERN AFRICAN FUND, ALTHOUGH  
MOST OF THE FUND HAD BEEN COMMITTED ALREADY. HE ASKED  
IF IT WOULD BE HELPFUL IF SOME PL-480 COMMODITIES WERE  
PROVIDED. THE FOREIGN MINISTER REPLIED THAT THIS MIGHT  
HELP--THAT ANYTHING WOULD HELP. OFF-HAND, HE SAID,  
THIS WOULD BE USEFUL. BUT HE HAD FELT IT WAS PARTICULAR-  
LY IMPORTANT TO SEE WHETHER THE US WAS PREPARED TO  
ASSIST. HE WAS GRATIFIED AT THE US RESPONSE. AFTER  
THE IMF NEGOTIATIONS HAD BEEN COMPLETED AND A DECISION  
MADE, THEN ZAMBIA WOULD BE ABLE TO BE MORE SPECIFIC.  
NOW IT WAS ENOUGH THAT THE US WANTED TO HELP.

9. MR. COOPER ASKED WHETHER HIS UNDERSTANDING WAS  
CORRECT, THAT ONLY A SMALL PART OF ZAMBIA'S EXTERNAL  
DEBT WAS TO THE US AND THAT ITS DEBTS TO GERMANY, THE  
UK AND JAPAN WERE CONSIDERABLY GREATER. THE SECRETARY  
SAID THAT THE US MIGHT AT LEAST BE IN A POSITION TO  
SPARK A CREDITOR'S CLUB APPROACH. MR.  
MEISSNER SAID THAT THE BRITISH OR FRENCH FINANCE  
MINISTERS CUSTOMARILY TOOK THE LEAD, DEPENDING ON WHICH  
HAD THE GREATER COMMERCIAL TIES. IT WOULD BE BEST IN  
THIS CASE TO HAVE THE BRITISH DO IT. BY SECURING THEIR  
AGREEMENT TO PROVIDE GOOD OFFICES, ZAMBIA WOULD ALSO BE  
ASSURED, AT LEAST IN PRINCIPLE, OF THEIR WILLINGNESS TO  
RESCHEDULE.

10. THE SECRETARY SAID THAT THE US COULD, OF COURSE,  
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DISCUSS THIS WITH THE BRITISH AND ENCOURAGE THEM TO  
GIVE A POSITIVE RESPONSE. THE FOREIGN MINISTER SAID  
THAT HE HAD ALREADY DISCUSSED THE SAME QUESTION WITH  
THE GERMAN FOREIGN MINISTER. THOSE TALKS HAD BEEN

ENCOURAGING. HE MIGHT BE ABLE TO TALK TO DR. DAVID OWEN ON THE WAY HOME.

II. THE SECRETARY INVITED THE FOREIGN MINISTER TO LET HIM KNOW HOW THINGS WERE GOING AND HOW WE COULD BE HELPFUL. HE ASKED WHEN THE IMF WOULD FINISH ITS NEGOTIATIONS? MR. MEISSNER SAID THAT IT WAS USUAL FOR THE IMF TO DO AN ECONOMIC STUDY, TO DEVELOP GROSS ESTIMATES OF THE VARIABLES AND THE NEEDED SIZE OF A STANDBY FACILITY. THEN, HE SAID, WE WOULD HAVE AN IDEA OF ZAMBIA'S ADDITIONAL NEEDS. USUALLY THIS PROCESS REQUIRED 90-180 DAYS. THE USE OF EITHER THE LONDON OR PARIS CLUB MECHANISMS MUST WAIT FOR THE COMPLETION OF IMF ACTION, BUT IN FACT WE COULD START TO MAKE ARRANGEMENTS A BIT AHEAD, ON THE BASIS OF GOOD FAITH ON ALL SIDES.

12. THE FOREIGN MINISTER COMMENTED THAT IT HAD BEEN A BAD YEAR FOR ZAMBIA. ASKED WHAT THE PROSPECTS WERE FOR COPPER, MR. COOPER REPLIED THAT THE PROBLEM WAS GLOBAL. THE COPPER INDUSTRY WAS IN TERRIBLE SHAPE. A REBOUND IN THE COPPER PRICE WAS TIED TO WORLD ECONOMIC RECOVERY. WHILE THE US RECOVERY WAS PROCEEDING SATISFACTORILY, THE WEAKNESS OF EUROPEAN ECONOMIES WAS HOLDING DOWN THE RATE OF REBOUND. ASKED WHAT HAD HAPPENED ON THE COPPER FUND QUESTION, MR. COOPER SAID THAT THERE HAD BEEN SOME PROGRESS. THERE HAD RECENTLY BEEN AGREEMENT TO ESTABLISH A PRODUCER/CONSUMER FORUM, WHICH WOULD MEET MORE OR LESS CONTINUOUSLY. WE WERE BEGINNING TO SEE THE SHAPE OF A FUND FOR THE STABILIZATION OF COPPER PRICES BUT MANY TECHNICAL QUESTIONS REMAINED TO BE WORKED OUT.  
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13. THE FOREIGN MINISTER SAID THAT ZAMBIA WAS DETERMINED TO DIVERSIFY INTO AGRICULTURE, TO ESCAPE ITS DEPENDENCE ON COPPER. SUGAR, HE SAID, HAD BEEN QUITE SUCCESSFUL. ZAMBIA HAD REACHED SELF-SUFFICIENCY IN MAIZE. COFFEE, TEA, AND COTTON FOR ITS OWN TEXTILE INDUSTRY WERE OTHER KEY COMMODITIES. ZAMBIA HAD BEEN INTENDING TO LAUNCH A THIRD NATIONAL DEVELOPMENT PLAN, BUT HAD TO POSTPONE IT BECAUSE OF ECONOMIC CIRCUMSTANCES. NOT ONLY RHODESIA BUT ALSO THE CIVIL WAR IN ANGOLA HAD DONE THEIR DAMAGE TO THE ZAMBIAN ECONOMY. THE TANZAM RAILROAD WAS NOW CONGESTED AND SERVING OTHERS AS WELL. IT WAS SHORT OF CARS AND A NUMBER OF ZAMBIAN RAILROAD CARS WERE STRANDED IN ANGOLA. THE FOREIGN MINISTER ADDED THAT WHEN ZAMBIA WAS SUFFERING THIS SORT OF LOSS IT HAD TO APPEAL TO ITS FRIENDS TO HELP. HE SAID IT WAS CLEARLY IN EVERYONE'S INTEREST THAT ZAMBIA REMAIN STABLE AND PEACEFUL, THAT ZAMBIA'S STABILITY WAS OF SUCH STRATEGIC IMPORTANCE THAT IT HAD TO BE MAIN-

TAINED. IF ZAMBIA WERE TO BECOME UNSTABLE, HE SAID, CHAOS WOULD RESULT IN THE REGION. IN CLOSING, THE SECRETARY ASKED THAT THE FOREIGN MINISTER BE BACK IN TOUCH WHEN ZAMBIA HAD ITS NEEDS DEFINED. THE FOREIGN

MINISTER ASSURED HIM THAT IT WOULD, AND AGAIN THANKED THE SECRETARY FOR US UNDERSTANDING.

14. FYI. IN ORDER TO DEVELOP APPROPRIATE RESPONSES TO -AMBIAN ECONOMIC DIFFICULTIES WE WILL NEED TO MAKE A COMPREHENSIVE ASSESSMENT OF ZAMBIA'S ECONOMIC AND FINANCIAL SITUATION. IN ADDITION TO MATERIALS SUCH AS THE WORLD BANK STUDY, WHICH ARE AVAILABLE HERE, THE FULLEST POSSIBLE EMBASSY REPORTING ON DEVELOPMENTS RELATING TO ZAMBIA'S CONFIDENTIAL

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ECONOMIC DIFFICULTIES WILL BE ESSENTIAL. RECENT EFFORTS HAVE BEEN EXCELLENT, AND WE HOPE FOR MORE. FOR EXAMPLE,

AGRICULTURE IS CONSIDERING ASKING CONGRESS FOR A SUPPLEMENT TO ITS TITLE I PL-480 BUDGET. INFORMATION REQUESTED IN STATE 23927 WILL BE HELPFUL IN CONSIDERING WHETHER ADDITIONAL PL-480 MIGHT BE AVAILABLE FOR ZAMBIA. END FYI VANCE

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